

# SMITH COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports  
For the Year Ended September 30, 2012

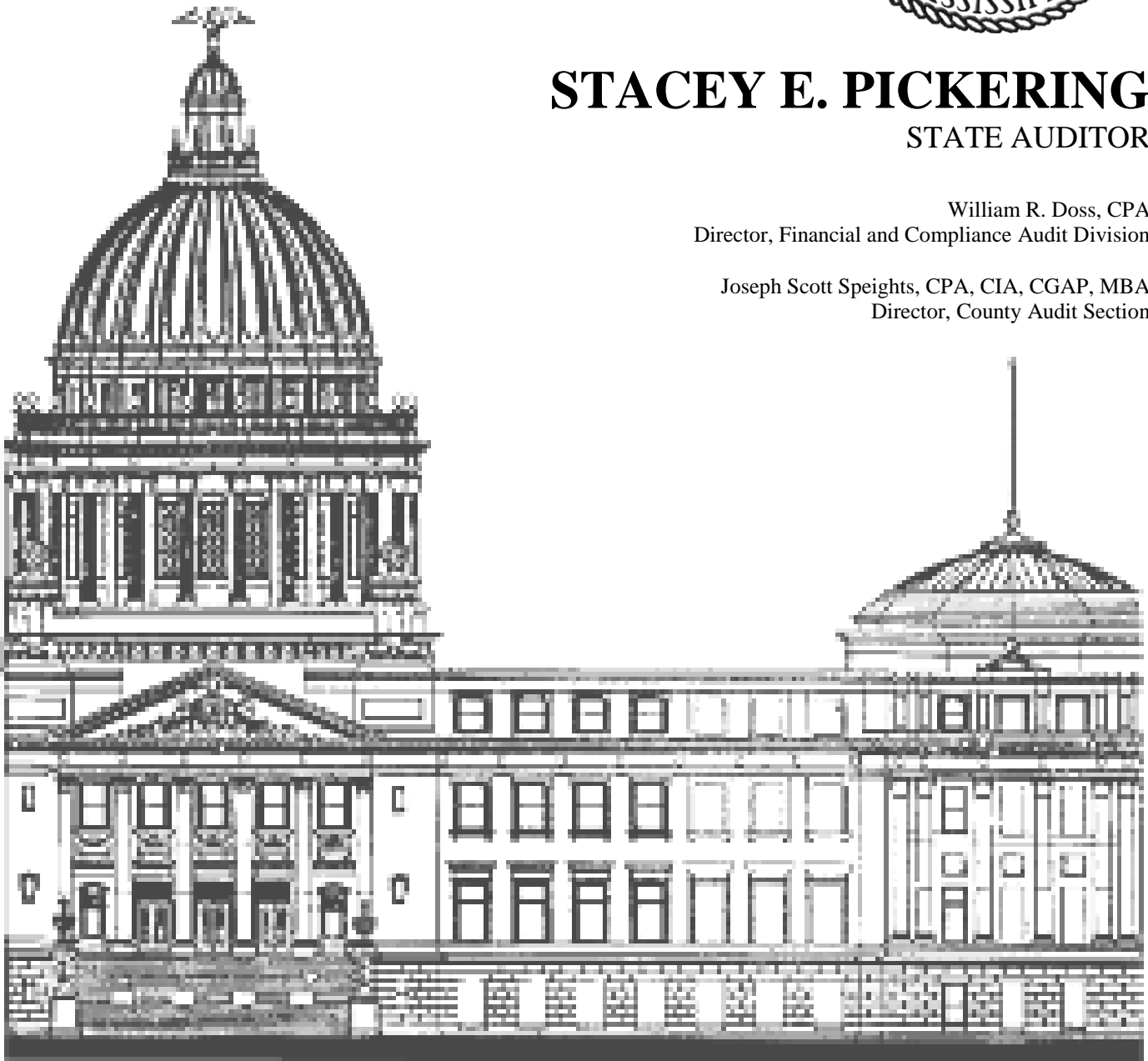


## STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA  
Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA  
Director, County Audit Section



A Report from the County Audit Section

[www.osa.state.ms.us](http://www.osa.state.ms.us)









**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

June 13, 2014

Members of the Board of Supervisors  
Smith County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2012 financial and compliance audit report for Smith County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

I appreciate the cooperation and courtesy extended by the officials and employees of Smith County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Smith County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering", is written over a horizontal line.

Stacey E. Pickering  
State Auditor



SMITH COUNTY

TABLE OF CONTENTS

FINANCIAL SECTION .....	1
INDEPENDENT AUDITOR’S REPORT .....	3
FINANCIAL STATEMENTS .....	5
Statement of Net Assets .....	7
Statement of Activities .....	8
Balance Sheet – Governmental Funds.....	9
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets .....	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	12
Statement Net Assets – Proprietary Fund.....	13
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund .....	14
Statement of Cash Flows – Proprietary Fund .....	15
Statement of Fiduciary Assets and Liabilities .....	16
Notes to Financial Statements .....	17
REQUIRED SUPPLEMENTARY INFORMATION .....	31
Budgetary Comparison Schedule – (Budget and Actual (Non-GAAP Basis) - General Fund .....	33
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) Countywide Road and Bridge Fund.....	34
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) County Engineer Fund .....	35
Notes to the Required Supplementary Information .....	37
SUPPLEMENTAL INFORMATION .....	39
Schedule of Expenditures of Federal Awards .....	40
OTHER INFORMATION .....	41
Schedule of Surety Bonds for County Officials .....	43
SPECIAL REPORTS.....	45
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	47
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 .....	49
Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972)) .....	51
Limited Internal Control and Compliance Review Management Report .....	57
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	63





SMITH COUNTY

FINANCIAL SECTION

SMITH COUNTY

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Supervisors  
Smith County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Smith County, Mississippi, as of and for the year ended September 30, 2012, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the County's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component unit. The County has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component unit is not reasonably determinable.

Management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable of the Justice Court and the Circuit Court or the aging of these fines receivable. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of fines receivable, net, reported in the General Fund at \$182,636, as of September 30, 2012. Also, because of the nature of the fines receivable records, we could not satisfy ourselves as to the fair presentation of the related transactions of the General Fund.

In our opinion, because of the omission of the discretely presented component unit, as discussed in the third paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of Smith County, Mississippi, as of September 30, 2012, or the changes in financial position thereof for the year then ended.

Also, in our opinion, except for the possible effects of such adjustments if any, as might have been determined to be necessary had we been able to examine evidence to determine the net realizable value of the Justice Court and the Circuit Court fines receivable for the General Fund as described in the fourth paragraph, the financial statements referred to previously present fairly, in all material respects, the financial position of the General Fund of Smith County, Mississippi, as of September 30, 2012, and the changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, Countywide Road and Bridge Fund, County Engineer Fund, Jail Construction Fund and the aggregate remaining fund information of Smith County, Mississippi, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

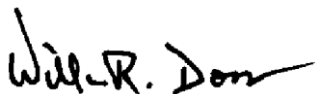
In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2014, on our consideration of Smith County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and corresponding notes, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Smith County, Mississippi, has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise Smith County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise Smith County, Mississippi's basic financial statements. The accompanying Schedule of Surety Bonds for County Officials is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 13, 2014

SMITH COUNTY

FINANCIAL STATEMENTS

SMITH COUNTY

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SMITH COUNTY  
Statement of Net Assets  
September 30, 2012

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 9,324,610	775,004	10,099,614
Accrued interest receivable	1,376		1,376
Property tax receivable	6,485,080		6,485,080
Accounts receivable (net of allowance for uncollectibles of \$312,599)		339,359	339,359
Fines receivable (net of allowance for uncollectibles of \$857,668)	182,636		182,636
Intergovernmental receivables	304,556		304,556
Other receivables	127,871		127,871
Internal balances	21,922	(21,922)	
Capital assets:			
Land and construction in progress	780,910		780,910
Other capital assets, net	32,026,216	143,282	32,169,498
Total Assets	49,255,177	1,235,723	50,490,900
LIABILITIES			
Claims payable	593,729	21,649	615,378
Arbitrage payable	29,055		29,055
Intergovernmental payables	228,121		228,121
Accrued interest payable	14,559		14,559
Deferred revenue	6,485,080		6,485,080
Unearned revenue	110,138	70,201	180,339
Other payables	78,543		78,543
Long-term liabilities			
Due within one year:			
Capital debt	771,466		771,466
Due in more than one year:			
Capital debt	4,615,572		4,615,572
Total Liabilities	12,926,263	91,850	13,018,113
NET ASSETS			
Invested in capital assets, net of related debt	29,615,043	143,282	29,758,325
Restricted:			
Expendable:			
General government	341,372		341,372
Public safety	244,070		244,070
Public works	1,825,029	1,000,591	2,825,620
Culture and recreation	29,191		29,191
Conservation of natural resources	8,017		8,017
Economic development and assistance	26,525		26,525
Debt service	1,234,446		1,234,446
Nonexpendable	152,300		152,300
Unrestricted	2,852,921		2,852,921
Total Net Assets	\$ 36,328,914	1,143,873	37,472,787

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY  
Statement of Activities  
For the Year Ended September 30, 2012

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,362,170	248,960	108,243		(2,004,967)		(2,004,967)
Public safety	1,799,481	167,141	134,827		(1,497,513)		(1,497,513)
Public works	4,078,722	229	677,729	2,228,412	(1,172,352)		(1,172,352)
Health and welfare	111,918		8,471		(103,447)		(103,447)
Culture and recreation	134,082			79,526	(54,556)		(54,556)
Education	188,779				(188,779)		(188,779)
Conservation of natural resources	61,879				(61,879)		(61,879)
Economic development and assistance	156,047		102,971	92,779	39,703		39,703
Interest on long-term debt	217,182				(217,182)		(217,182)
Arbitrage penalty	29,055				(29,055)		(29,055)
Total Governmental Activities	<u>9,139,315</u>	<u>416,330</u>	<u>1,032,241</u>	<u>2,400,717</u>	<u>(5,290,027)</u>		<u>(5,290,027)</u>
Business-type activities:							
Solid Waste	461,425	654,149				192,724	192,724
Total Business-type Activities	<u>461,425</u>	<u>654,149</u>	<u>0</u>	<u>0</u>		<u>192,724</u>	<u>192,724</u>
Total Primary Government	<u>\$ 9,600,740</u>	<u>1,070,479</u>	<u>1,032,241</u>	<u>2,400,717</u>	<u>(5,290,027)</u>	<u>192,724</u>	<u>(5,097,303)</u>
General revenues:							
Property taxes					\$ 6,277,699		6,277,699
Road & bridge privilege taxes					197,732		197,732
Grants and contributions not restricted to specific programs					1,488,107		1,488,107
Unrestricted interest income					97,362	3,084	100,446
Miscellaneous					282,743	1,537	284,280
Transfers					(20,000)	20,000	
Total General Revenues and Transfers					<u>8,323,643</u>	<u>24,621</u>	<u>8,348,264</u>
Changes in Net Assets					<u>3,033,616</u>	<u>217,345</u>	<u>3,250,961</u>
Net Assets - Beginning of year					33,295,298	926,528	34,221,826
Net Assets - End of year					<u>\$ 36,328,914</u>	<u>1,143,873</u>	<u>37,472,787</u>

The notes to the financial statements are an integral part of this statement.



SMITH COUNTY  
Balance Sheet - Governmental Funds  
September 30, 2012

Exhibit 3

	Major Funds					
	General Fund	Countywide Road & Bridge Fund	County Engineer Fund	Jail Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 3,021,353	569,280	5,693	2,194,955	3,533,329	9,324,610
Accrued interest receivable				1,376		1,376
Property tax receivable	4,085,760	1,500,000			899,320	6,485,080
Fines receivable (net of allowance for uncollectibles of \$857,668)	182,636					182,636
Intergovernmental receivables	104,751				199,805	304,556
Other receivables	3,921				123,950	127,871
Due from other funds	11,504	17,175			126,745	155,424
Advances to other funds	152,300					152,300
Total Assets	\$ 7,562,225	2,086,455	5,693	2,196,331	4,883,149	16,733,853
LIABILITIES AND FUND BALANCES						
Liabilities:						
Claims payable	\$ 117,644	5,779	5,737		464,569	593,729
Intergovernmental payables	225,037					225,037
Due to other funds	47,004				100,000	147,004
Advances from other funds					141,882	141,882
Deferred revenue	4,268,396	1,500,000			899,320	6,667,716
Unearned revenue					110,138	110,138
Other payables	78,543					78,543
Total Liabilities	4,736,624	1,505,779	5,737	0	1,715,909	7,964,049
Fund balances:						
Nonspendable:						
Advances	152,300					152,300
Restricted for:						
General government					341,372	341,372
Public safety				2,196,331	271,749	2,468,080
Public works		580,676			1,244,353	1,825,029
Culture and recreation					29,191	29,191
Conservation of natural resources					8,017	8,017
Economic development and assistance					26,525	26,525
Debt service					1,249,005	1,249,005
Unassigned	2,673,301		(44)		(2,972)	2,670,285
Total Fund Balances	2,825,601	580,676	(44)	2,196,331	3,167,240	8,769,804
Total Liabilities and Fund Balances	\$ 7,562,225	2,086,455	5,693	2,196,331	4,883,149	16,733,853

The notes to the financial statements are an integral part of this statement.

## SMITH COUNTY

Exhibit 3-1Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2012

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 8,769,804
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$48,126,174.	32,807,126
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	182,636
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(5,387,038)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(14,559)
Arbitrage liability is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(29,055)</u>
Total Net Assets - Governmental Activities	\$ <u><u>36,328,914</u></u>

The notes to the financial statements are an integral part of this statement.

## SMITH COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2012

	Major Funds				Other	Total
	General	Countywide	County	Jail	Governmental	Governmental
	Fund	Road & Bridge	Engineer	Construction	Funds	Funds
	Fund	Fund	Fund	Fund		
REVENUES						
Property taxes	\$ 3,925,199	1,406,388			946,112	6,277,699
Road and bridge privilege taxes					197,732	197,732
Licenses, commissions and other revenue	101,020				4,750	105,770
Fines and forfeitures	139,474					139,474
Intergovernmental revenues	643,449	12,392	2,273,268		1,991,956	4,921,065
Charges for services	23,591				124,531	148,122
Interest income	72,152	2,127		8,841	14,242	97,362
Miscellaneous revenues	213,624	1,193			67,926	282,743
Total Revenues	5,118,509	1,422,100	2,273,268	8,841	3,347,249	12,169,967
EXPENDITURES						
Current:						
General government	2,400,830				88,962	2,489,792
Public safety	1,606,772			20,648	232,046	1,859,466
Public works		291,650	2,273,820		2,881,666	5,447,136
Health and welfare	111,918					111,918
Culture and recreation	133,895				99,594	233,489
Education	188,779					188,779
Conservation of natural resources	59,959				1,920	61,879
Economic development and assistance	23,400				132,647	156,047
Debt service:						
Principal	26,781	36,544			825,871	889,196
Interest	2,563	3,062			212,530	218,155
Total Expenditures	4,554,897	331,256	2,273,820	20,648	4,475,236	11,655,857
Excess of Revenues over (under) Expenditures	563,612	1,090,844	(552)	(11,807)	(1,127,987)	514,110
OTHER FINANCING SOURCES (USES)						
Long-term capital debt issued	71,600				483,260	554,860
Proceeds from sale of capital assets	13,320				44,783	58,103
Transfers in	47,106				996,696	1,043,802
Transfers out	(135,096)	(850,000)			(78,706)	(1,063,802)
Total Other Financing Sources and Uses	(3,070)	(850,000)	0	0	1,446,033	592,963
Net Changes in Fund Balances	560,542	240,844	(552)	(11,807)	318,046	1,107,073
Fund Balances - Beginning of year	2,265,059	339,832	508	2,208,138	2,849,194	7,662,731
Fund Balances - End of year	\$ 2,825,601	580,676	(44)	2,196,331	3,167,240	8,769,804

The notes to the financial statements are an integral part of this statement.

## SMITH COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2012

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 1,107,073
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$3,374,170 exceeded depreciation of \$1,599,370 in the current period.	1,774,800
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$119,372 and the proceeds from the sale of \$58,103 in the current period.	(177,475)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	22,964
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$889,196 exceeded debt proceeds of \$554,860.	334,336
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Decrease in accrued interest payable	973
Increase in arbitrage liability	<u>(29,055)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>3,033,616</u></u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY  
Statement of Net Assets - Proprietary Fund  
September 30, 2012

Exhibit 5

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
ASSETS	
Current assets:	
Cash	\$ 775,004
Accounts receivable (net of allowance for uncollectibles of \$312,599)	<u>339,359</u>
Total Current Assets	<u>1,114,363</u>
Noncurrent assets:	
Capital assets:	
Other capital assets, net	<u>143,282</u>
Total Noncurrent Assets	<u>143,282</u>
Total Assets	<u>1,257,645</u>
LIABILITIES	
Current liabilities:	
Claims payable	21,649
Due to other funds	11,504
Advances from other funds	10,418
Unearned revenue	<u>70,201</u>
Total Current Liabilities	<u>113,772</u>
NET ASSETS	
Invested in capital assets, net of related debt	143,282
Restricted for:	
Public works	<u>1,000,591</u>
Total Net Assets	<u>\$ 1,143,873</u>

The notes to the financial statements are an integral part of this statement.

## SMITH COUNTY

Exhibit 6Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund  
For the Year Ended September 30, 2012

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
Operating Revenues	
Charges for services	\$ 654,149
Miscellaneous	1,537
Total Operating Revenues	<u>655,686</u>
Operating Expenses	
Personal services	156,495
Contractual services	128,740
Materials and supplies	122,731
Depreciation expense	41,955
Indirect administrative cost	11,504
Total Operating Expenses	<u>461,425</u>
Operating Income (Loss)	<u>194,261</u>
Nonoperating Revenues (Expenses)	
Interest income	3,084
Net Nonoperating Revenue (Expenses)	<u>3,084</u>
Net Income (Loss) Before Transfers	197,345
Transfers in	<u>20,000</u>
Changes in Net Assets	<u>217,345</u>
Net Assets - Beginning	<u>926,528</u>
Net Assets - Ending	<u>\$ 1,143,873</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended September 30, 2012

Exhibit 7

	Business-type Activities - Enterprise Fund
	Solid Waste Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 617,183
Payments to suppliers	(125,825)
Payments to employees	(156,495)
Payments to claims	(129,522)
Other operating cash receipts	1,537
Net Cash Provided (Used) by Operating Activities	206,878
Cash Flows From Noncapital Financing Activities	
Cash received from other funds:	
Operating transfers in	20,000
Cash paid to other funds:	
Interfund loan repayments	(34,172)
Net Cash Provided (Used) by Noncapital Financing Activities	(14,172)
Cash Flows From Investing Activities	
Interest on deposits	3,084
Net Cash Provided (Used) by Investing Activities	3,084
Net Increase (Decrease) in Cash and Cash Equivalents	195,790
Cash and Cash Equivalents at Beginning of Year	579,214
Cash and Cash Equivalents at End of Year	\$ 775,004
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 194,261
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	41,955
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(39,092)
Increase (decrease) in claims payable	(3,877)
Increase (decrease) in unearned revenue	2,127
Increase (decrease) in interfund payables	11,504
Total Adjustments	12,617
Net Cash Provided (Used) by Operating Activities	\$ 206,878

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2012

Exhibit 8

	Agency Funds
ASSETS	
Cash	\$ 208,678
Due from other funds	3,084
Total Assets	<u>\$ 211,762</u>
LIABILITIES	
Amounts held in custody for others	\$ 191,897
Intergovernmental payables	19,865
Total Liabilities	<u>\$ 211,762</u>

The notes to the financial statements are an integral part of this statement.



## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2012

#### (1) Summary of Significant Accounting Policies.

##### A. Financial Reporting Entity.

Smith County is a political subdivision of the State of Mississippi. The County is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Smith County to present these financial statements on the primary government and its component unit which has a significant operational or financial relationship with the County.

Management has chosen to omit from these financial statements the following component unit which has significant operational or financial relationship with the County. Accordingly, the financial statements do not include the data of this component unit necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Smith County Economic Development Authority

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the County legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

##### B. Basis of Presentation.

The County's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

##### Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the County as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Assets presents the financial condition of the governmental activities and business-type activities of the County at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the County's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activity or governmental function is self-financing or draws from the general revenues of the County.

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2012

#### Fund Financial Statements:

Fund financial statements of the County are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

#### C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the County. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The County's Proprietary Funds and business type activities apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The County reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Countywide Road and Bridge Fund - This fund is used to account for resources designated and used for maintenance of the county's infrastructure system.

County Engineer Fund - This fund is used to account for monies from specific revenue sources that are restricted for road and bridge maintenance and construction.

Jail Construction Fund - This fund is used to account for bond proceeds designated to be used for the construction of a new jail.

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2012

The County reports the following major Enterprise Fund:

Solid Waste Fund - This fund is used to account for the County's activities of disposal of solid waste within the County.

Additionally, the County reports the following fund types:

#### GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

#### PROPRIETARY FUND TYPE

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the County has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

#### FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the County, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

#### D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

#### E. Deposits and Investments.

State law authorizes the County to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the County may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the County did not invest in any governmental securities during the fiscal year.

#### F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2012

### G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources. However, this is not applicable to advances reported in other governmental funds, which are reported, by definition, as restricted, committed or assigned. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

### H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the (applicable) governmental or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Smith County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the County's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

\* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2012

#### I. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Assets.

#### J. Equity Classifications.

##### Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

##### Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the County:

*Nonspendable fund balance* includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

*Restricted fund balance* includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

*Unassigned fund balance* is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the County’s general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted resources are available, and amounts in any of these unrestricted classifications could be used, it is the County’s general policy to spend unassigned resources first.

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2012

#### K. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the County. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

#### L. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

#### (2) Deposits.

The carrying amount of the County's total deposits with financial institutions at September 30, 2012, was \$10,308,292, and the bank balance was \$10,476,710. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of the failure of a financial institution, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the County. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the County.

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2012

### (3) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2012:

#### A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Solid Waste Fund	\$ 11,504
Countywide Road & Bridge Fund	General Fund	17,175
Other Governmental Funds	General Fund	26,745
Other Governmental Funds	Other Governmental Funds	100,000
Agency Funds	General Fund	3,084
Total		\$ 158,508

The receivables represent the tax revenue collected in September, 2012, but not settled until October, 2012, short-term loans, and indirect cost from the Solid Waste Fund. All interfund balances are expected to be repaid within one year from the date of the financial statements.

#### B. Advances from/to Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Solid Waste Fund	\$ 10,418
General Fund	Other Governmental Funds	141,882
Total		\$ 152,300

The advances represent indirect costs associated with solid waste operations and operating loans. These advances are not expected to be repaid within one year from the date of the financial statements.

#### C. Transfers In/Out:

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	\$ 47,106
Other Governmental Funds	General Fund	115,096
Other Governmental Funds	Countywide Road & Bridge Fund	850,000
Other Governmental Funds	Other Governmental Funds	31,600
Solid Waste Fund	General Fund	20,000
Total		\$ 1,063,802

The principal purpose of interfund transfers was to allocate amounts to the individual road maintenance funds, to transfer specified funds for accounting purposes, or to transfer funds for operating purposes. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

SMITH COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2012

(4) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2012, consisted of the following:

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 80,554
Emergency Management Performance Grant	21,709
HOME Investment Partnership Grant	27,500
Recreational Trail Grant	79,526
Community Development Block Grant	92,779
Reimbursement for housing prisoners	1,005
Reimbursement for youth court	1,483
	<hr/>
Total Governmental Activities	\$ <u><u>304,556</u></u>

(5) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2012:

**Governmental activities:**

	Balance Oct. 1, 2011	Additions	Deletions	Adjustments*	Balance Sept. 30, 2012
<b><u>Non-depreciable capital assets:</u></b>					
Land	\$ 385,456	2,510	290	10,000	397,676
Construction in progress	263,179	120,055			383,234
Total non-depreciable capital assets	<u>648,635</u>	<u>122,565</u>	<u>290</u>	<u>10,000</u>	<u>780,910</u>
<b><u>Depreciable capital assets:</u></b>					
Infrastructure	64,578,064	2,377,673			66,955,737
Buildings	5,645,988	242,616			5,888,604
Mobile equipment	4,473,801	208,971	510,289	497,197	4,669,680
Furniture and equipment	670,580	13,603	19,718	61,967	726,432
Leased property under capital leases	2,090,990	408,742	18,631	(569,164)	1,911,937
Total depreciable capital assets	<u>77,459,423</u>	<u>3,251,605</u>	<u>548,638</u>	<u>(10,000)</u>	<u>80,152,390</u>
<b><u>Less accumulated depreciation for:</u></b>					
Infrastructure	41,326,493	1,073,434			42,399,927
Buildings	1,022,776	118,409			1,141,185
Mobile equipment	3,367,325	163,916	353,095	270,002	3,448,148
Furniture and equipment	393,651	53,654	18,358	29,460	458,407
Leased property under capital leases	788,012	189,957		(299,462)	678,507
Total accumulated Depreciation	<u>46,898,257</u>	<u>1,599,370</u>	<u>371,453</u>	<u>0</u>	<u>48,126,174</u>
Total depreciable capital assets, net	<u>30,561,166</u>	<u>1,652,235</u>	<u>177,185</u>	<u>(10,000)</u>	<u>32,026,216</u>
Governmental activities capital assets, net	\$ <u><u>31,209,801</u></u>	<u><u>1,774,800</u></u>	<u><u>177,475</u></u>	<u><u>0</u></u>	<u><u>32,807,126</u></u>

\*Adjustments are for the reclassification of equipment transferred to mobile equipment and furniture and equipment from paid off leases.



SMITH COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2012

**Business-type activities:**

	Balance Oct. 1, 2011	Additions	Deletions	Adjustments	Balance Sept. 30, 2012
<u>Depreciable capital assets:</u>					
Mobile equipment	427,203				427,203
Total depreciable capital assets	427,203	0	0	0	427,203
<u>Less accumulated depreciation for:</u>					
Mobile equipment	241,966	41,955			283,921
Total accumulated Depreciation	241,966	41,955	0	0	283,921
Total depreciable capital assets, net	185,237	(41,955)	0	0	143,282
Business-type activities capital assets, net	\$ 185,237	(41,955)	0	0	143,282

Depreciation expense was charged to the following functions:

	Amount
<b>Governmental Activities:</b>	
General government	\$ 108,277
Public safety	98,404
Public works	1,392,689
Total governmental activities depreciation expense	\$ 1,599,370
<b>Business-type activities:</b>	
Solid waste	\$ 41,955

Commitments with respect to unfinished capital projects at September 30, 2012, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
District 2 Walking Trail	\$ 25,593	03/31/2013

(6) Claims and Judgments.

Risk Financing.

The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2012, to January 1, 2013. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

SMITH COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2012

(7) Capital Leases.

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2012:

Classes of Property		Governmental Activities
Mobile equipment	\$	1,664,097
Furniture and equipment		247,840
Total		1,911,937
Less: Accumulated depreciation		678,507
Leased Property Under Capital Leases	\$	<u>1,233,430</u>

The following is a schedule by years of the total payments due as of September 30, 2012:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2013	\$ 481,466	21,941
2014	323,018	11,434
2015	232,460	3,911
2016	55,094	487
Total	\$ <u>1,092,038</u>	<u>37,773</u>

(8) Long-term Debt.

Debt outstanding as of September 30, 2012, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
Chancery building and jail	\$ 4,090,000	3.60/5.00%	03/2025
Agriculture complex	205,000	3.85/5.60%	03/2016
Total General Obligation Bonds	\$ <u>4,295,000</u>		
B. Capital Leases:			
2010 Ford Crown Victoria	\$ 6,698	3.40%	11/2013
IBM Model 8203-E4A	30,518	3.37%	07/2015
Chevrolet Tahoe and two Ford Crown Victorias	61,600	2.46%	02/2016
Communications equipment	11,307	3.00%	09/2015
E-911 equipment	63,678	4.15%	12/2014
Used 2009 durapatcher	97,263	2.62%	04/2015
Caterpillar 140M motor grader	134,808	2.15%	06/2016
John Deere tractor boom mower	94,024	2.32%	07/2016
Caterpillar 140M motor grader	139,593	3.24%	01/2013
John Deere tractor with boom mower	48,364	2.43%	09/2015
2013 Mack dump truck with dump body	123,950	2.00%	09/2015
2008 Silverado truck	415	2.85%	09/2012

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2012

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Used 2008 Caterpillar 315	51,900	3.15%	10/2014
Used Kubota M9540 tractor	17,300	2.75%	06/2015
Caterpillar 315L CL excavator w/ shovel	23,690	3.41%	01/2014
John Deere tractor with boom mower	48,364	2.43%	09/2015
2012 Dodge Ram 1500	20,398	2.37%	04/2015
Kubota tractor with loader	42,631	2.23%	04/2015
Case 590 backhoe	6,157	3.37%	01/2013
Mack truck	28,804	3.27%	06/2014
John Deere 6330 tractor	40,576	2.49%	07/2015
Total Capital Leases	\$ 1,092,038		

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

### Governmental Activities:

Year Ending September 30	General Obligation Bonds	
	Principal	Interest
2013	\$ 290,000	168,531
2014	300,000	156,456
2015	310,000	144,346
2016	325,000	131,534
2017	285,000	119,517
2018 – 2022	1,625,000	415,686
2023 – 2027	1,160,000	75,055
Total	\$ 4,295,000	1,211,125

Legal Debt Margin - The amount of debt, excluding specific exempted debt that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2012, the amount of outstanding debt was equal to 2.29% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2012:

	Balance Oct. 1, 2011	Additions	Reductions	Adjustments	Balance Sept. 30, 2012	Amount due within one year
Governmental Activities:						
General obligation bonds	\$ 4,570,000		275,000		4,295,000	290,000
Capital leases	1,151,374	554,860	614,196		1,092,038	481,466
Total	\$ 5,721,374	554,860	889,196	0	5,387,038	771,466

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2012

### (9) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2012:

Fund	Deficit Amount
Emergency 911 Fund	\$ 2,972

### (10) Contingencies.

Federal Grants - The County has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the County. No provision for any liability that may result has been recognized in the County's financial statements.

Litigation - The County is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the County with respect to the various proceedings. However, the County's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the County.

General Obligation Bonds Series 2005 – On March 1, 2005, the County issued \$5,500,000 in General Obligation Bonds to fund construction of the Chancery building and a new jail facility. However, due to Hurricane Katrina striking the Gulf Coast in August 2005, the plans to build the facilities were put on hold to focus on recovery efforts from the storm. In early 2006, the Board of Supervisors of Smith County refocused its efforts on beginning construction of the Chancery Building. The Chancery Building was completed in 2009. However, due to the increased construction costs incurred in completing the Chancery Building and the increase in the estimated costs to construct the jail facility, construction of the jail facility was put on hold. The County has approximately \$2,195,000 of bond proceeds in the Jail Construction Fund at September 30, 2012. The County is currently seeking the advice of Bond Counsel as to the proper use of these funds and the remaining timeline for expenditure of these funds.

### (11) Joint Venture.

The County participates in the following joint venture:

Smith County is a participant with Rankin, Scott and Simpson Counties in a joint venture, authorized by Section 39-3-9. Miss. Code Ann. (1972), to operate the Central Mississippi Regional Library System. The joint venture was created to provide free library service to the public and is governed by a five-member board of which two members are appointed by Rankin County and one member each from the other three counties. By contractual agreement, the County's appropriation to the joint venture was \$133,895 in fiscal year 2012. Complete financial statements for the Central Mississippi Regional Library System can be obtained from 3470 Highway 80 East, Pearl, MS 39208.

### (12) Jointly Governed Organizations.

The County participates in the following jointly governed organizations:

Central Mississippi Emergency Medical Services District operates in a district composed of the Counties of Attala, Clarke, Copiah, Holmes, Lauderdale, Leake, Madison, Neshoba, Rankin, Scott, Smith, Warren and Yazoo. The Smith County Board of Supervisors appoints two of the 26 members of the board. The county provided no financial support for the district in fiscal year 2012.

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2012

Region Ten Health-Mental Retardation Commission operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Smith County Board of Supervisors appoints one of the nine members of the board of commissioners. The County provided \$20,840 for support of the commission in fiscal year 2012.

Jones County Junior College operates in a district composed of the Counties of Clarke, Covington, Greene, Jasper, Jones, Perry, Smith and Wayne. The Smith County Board of Supervisors appoints two of the 20 members of the college board of trustees. The County appropriated \$257,343 for maintenance and support of the college for the fiscal year 2012.

East Central Mississippi Planning and Development District operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Smith County Board of Supervisors appoints one of the 15 members of the board of directors. The County appropriated \$9,616 for support of the district in fiscal year 2012.

Mid-Mississippi Development District operates in a district composed of the Counties of Clarke, Jasper, Lauderdale, Newton, Scott and Smith. The district was organized to foster, encourage, and facilitate economic development in the member counties. The district's board of trustees is composed of 30 members, five each from the six-member counties. The County appropriated \$21,750 for support of the district in fiscal year 2012.

#### (13) Defined Benefit Pension Plan.

Plan Description. Smith County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. At September 30, 2012, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2012 was 14.26% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2012, 2011 and 2010 were \$307,979, \$274,156 and \$274,865, respectively, equal to the required contributions for each year.

#### (14) Subsequent Events.

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of Smith County evaluated the activity of the County through June 13, 2014, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2012

Subsequent to September 30, 2012, the County issued the following debt obligations:

Issue Date	Interest Rate		Issue Amount	Type of Financing	Source of Financing
02/05/2013	2.00%	\$	10,350	Capital lease	Ad valorem taxes
02/11/2013	1.99%		134,000	Capital lease	Ad valorem taxes
02/11/2013	1.95%		47,500	Capital lease	Ad valorem taxes
03/04/2013	1.16%		199,500	Capital lease	Ad valorem taxes
03/18/2013	2.12%		34,200	Capital lease	Ad valorem taxes
05/06/2013	1.80%		28,034	Capital lease	Ad valorem taxes
05/09/2013	2.10%		45,620	Capital lease	Ad valorem taxes
05/09/2013	2.10%		34,875	Capital lease	Ad valorem taxes
05/20/2013	2.11%		47,970	Capital lease	Ad valorem taxes
05/20/2013	2.01%		46,980	Capital lease	Ad valorem taxes
09/20/2013	1.93%		29,500	Capital lease	Ad valorem taxes
01/14/2014	2.10%		46,745	Capital lease	Ad valorem taxes
02/26/2014	2.12%		23,049	Capital lease	Ad valorem taxes

During the 2013 year, Smith County sought the services of an arbitrage consultant for a determination of any arbitrage liability associated with the Series 2005 General Obligation Bonds. Calculations were made by the arbitrage consultant and an arbitrage liability of \$29,055 was determined to be owed by the County for the period April 7, 2005 to March 1, 2010. As such, a liability has been recorded in the financial statements for this amount due.

On July 25, 2013, the County entered into a contract for Architectural services for the development of plans for the construction of a new Smith County Detention Facility.

On March 24, 2014, the county entered into a construction contract in the amount of \$3,787,600 for the construction of the new Smith County Detention Facility. The estimated completion date of the facility is March 2015.

SMITH COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SMITH COUNTY

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SMITH COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2012  
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,792,260	3,936,233	3,936,233	
Licenses, commissions and other revenue	80,000	95,892	95,892	
Fines and forfeitures	110,000	134,472	134,472	
Intergovernmental revenues	918,000	765,940	765,940	
Charges for services	10,000	22,885	22,885	
Interest income	26,000	73,815	73,816	1
Miscellaneous revenues	100,000	358,582	358,632	50
Total Revenues	<u>5,036,260</u>	<u>5,387,819</u>	<u>5,387,870</u>	<u>51</u>
EXPENDITURES				
Current:				
General government	2,298,600	2,816,978	2,817,271	(293)
Public safety	1,428,969	1,611,442	1,611,442	
Health and welfare	104,206	112,947	112,947	
Culture and recreation	133,895	133,895	133,895	
Education	542,000			
Conservation of natural resources	67,402	59,259	59,259	
Economic development and assistance	40,250	23,400	23,400	
Debt service:				
Principal	17,000	39,769	39,769	
Interest		3,081	3,081	
Total Expenditures	<u>4,632,322</u>	<u>4,800,771</u>	<u>4,801,064</u>	<u>(293)</u>
Excess of Revenues over (under) Expenditures	<u>403,938</u>	<u>587,048</u>	<u>586,806</u>	<u>(242)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	38,000	90,778	90,778	
Transfers out	(85,000)	(212,181)	(212,181)	
Other financing sources		85,012	84,920	(92)
Total Other Financing Sources and Uses	<u>(47,000)</u>	<u>(36,391)</u>	<u>(36,483)</u>	<u>(92)</u>
Net Change in Fund Balance	356,938	550,657	550,323	(334)
Fund Balances - Beginning	<u>1,615,000</u>	<u>2,222,198</u>	<u>2,222,248</u>	<u>50</u>
Fund Balances - Ending	<u>\$ 1,971,938</u>	<u>2,772,855</u>	<u>2,772,571</u>	<u>(284)</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

SMITH COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 Countywide Road and Bridge Fund  
 For the Year Ended September 30, 2012  
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,350,000	1,409,935	1,409,935	
Intergovernmental revenues	9,000	12,393	12,393	
Interest income	5,000	2,126	2,126	
Miscellaneous revenues	300	1,193	1,193	
Total Revenues	<u>1,364,300</u>	<u>1,425,647</u>	<u>1,425,647</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	415,000	361,283	361,283	
Debt service:				
Principal	20,000	36,544	36,544	
Interest		3,062	3,062	
Total Expenditures	<u>435,000</u>	<u>400,889</u>	<u>400,889</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>929,300</u>	<u>1,024,758</u>	<u>1,024,758</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(850,000)</u>	<u>(850,000)</u>	<u>(850,000)</u>	
Total Other Financing Sources and Uses	<u>(850,000)</u>	<u>(850,000)</u>	<u>(850,000)</u>	<u>0</u>
Net Change in Fund Balance	79,300	174,758	174,758	
Fund Balances - Beginning	<u>250,000</u>	<u>394,522</u>	<u>394,522</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 329,300</u>	<u>569,280</u>	<u>569,280</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

SMITH COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 County Engineer Fund  
 For the Year Ended September 30, 2012  
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 300,000	154,295	154,295	
Total Revenues	<u>300,000</u>	<u>154,295</u>	<u>154,295</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	300,000	157,910	157,910	
Total Expenditures	<u>300,000</u>	<u>157,910</u>	<u>157,910</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>(3,615)</u>	<u>(3,615)</u>	<u>0</u>
Net Change in Fund Balance		(3,615)	(3,615)	
Fund Balances - Beginning	<u>18,177</u>	<u>9,308</u>	<u>9,308</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 18,177</u>	<u>5,693</u>	<u>5,693</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

SMITH COUNTY

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# SMITH COUNTY

## Notes to the Required Supplementary Information For the Year Ended September 30, 2012 UNAUDITED

### A. Budgetary Information.

Statutory requirements dictate how and when the County's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the County, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The County's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

### B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

### C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major Special Revenue Fund:

	Government		
	General Fund	Countywide Road and Bridge Fund	County Engineer Fund
Budget (Cash Basis)	\$ 550,323	174,758	(3,615)
Increase (Decrease)			
Net adjustments for revenue accruals	5,972	(3,547)	
Net adjustments for expenditure accruals	46,415	(1,740)	3,063
Other reconciling items:			
Net of interfund loans made and repaid	(42,168)	71,373	
GAAP Basis	\$ 560,542	240,844	(552)

SMITH COUNTY

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## SMITH COUNTY

## SUPPLEMENTAL INFORMATION

SMITH COUNTY

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2012

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture/Passed-through the Mississippi State Treasurer's Office School and roads - grants to states (Note B) *	10.665	N/A	\$ 377,558
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's programs	14.228	1124-07-065-PF-01	92,779
HOME investment partnership program (Note B) Total U.S. Department of Housing and Urban Development	14.239	1221-M09-SG-280-978	104,133 196,912
U.S Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation Highway planning and construction Highway planning and construction Subtotal	20.205 20.205	BR NBIS 076 B(65) EFLH 0065 26 BO	26,500 18,356 44,856
U.S. Department of Transportation/Passed-through the Mississippi Department of Wildlife, Fisheries and Parks Recreational trails program Total U.S. Department of Transportation	20.219	28-RTP-0185	79,526 124,382
U.S Department of Energy/Passed-through the Mississippi Development Authority ARRA - Energy efficiency and conservation block grant program (Note C) *	81.128	GT11-0810-0084	77,115
U.S. Department of Homeland Security/Passed-through the Mississippi Emergency Management Agency Disaster grants - pubic assistance Emergency management performance grants Total U.S. Department of Homeland Security	97.036 97.042	FEMA-1972-DR-MS N/A	1,944 32,309 34,253
Total Expenditures of Federal Awards			\$ 810,220

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

Note B - CFDA 10.665 Schools and roads - grants to states

CFDA 14.239 HOME investment partnership program

Of the federal expenditures presented in the schedule, the county provided federal awards totaling \$288,745 to subrecipients during the year ended September 30, 2012.

Note C - American Recovery and Reinvestment Act Grant

The Energy efficiency and conservation block grant program is American Recovery and Reinvestment Act funds.

\* Denotes major federal award program



## SMITH COUNTY

## OTHER INFORMATION

SMITH COUNTY

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SMITH COUNTY  
Schedule of Surety Bonds for County Officials  
For the Year Ended September 30, 2012  
UNAUDITED

Name	Position	Company	Bond
Kenneth R. Cain	Supervisor District 1	Western Surety Company	\$100,000
Dwight D. Norris	Supervisor District 2	Western Surety Company	\$100,000
Benjie Ford	Supervisor District 3	Western Surety Company	\$100,000
Danny W. Arender	Supervisor District 4	Western Surety Company	\$100,000
Howard Hammons	Supervisor District 5	Western Surety Company	\$100,000
Cindy Austin	Chancery Clerk	Western Surety Company	\$100,000
Rita McDonald	Purchase Clerk	Western Surety Company	\$75,000
Melissa Walker	Receiving Clerk	Western Surety Company	\$75,000
Steven C. Phillips	Assistant Receiving Clerk	Western Surety Company	\$50,000
John Henry Mathis	Assistant Receiving Clerk	Western Surety Company	\$50,000
L.D. Haynes	Assistant Receiving Clerk	Western Surety Company	\$50,000
Elaine Shelby	Inventory Control Clerk	Western Surety Company	\$75,000
David Easterling	Constable	Western Surety Company	\$50,000
Dennis Jones	Constable	Western Surety Company	\$50,000
Anthony Grayson	Circuit Clerk	Western Surety Company	\$100,000
Clara Brown	Deputy Circuit Clerk	Western Surety Company	\$50,000
Hope Westbrook	Deputy Circuit Clerk	Western Surety Company	\$50,000
Sheree Hester	Deputy Circuit Clerk	Western Surety Company	\$50,000
Charlie Crumpton	Sheriff	Western Surety Company	\$100,000
	Sheriff's Deputy (hired under		
Marty Patterson	Section 45-5-9 Miss. Code	Western Surety Company	\$50,000
Hulon West	Justice Court Judge	Western Surety Company	\$50,000
Jerry Baldwin	Justice Court Judge	Western Surety Company	\$50,000
Donna Watts	Justice Court Clerk	Western Surety Company	\$50,000
Robbin Matilda Hannah	Deputy Justice Court Clerk	Western Surety Company	\$50,000
Karen Blakeney	Deputy Justice Court Clerk	Western Surety Company	\$50,000
Arthur Newman	Deputy Justice Court Clerk	Western Surety Company	\$50,000
Becky Martin	Tax Collector-Assessor	Western Surety Company	\$100,000

## SMITH COUNTY

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## SMITH COUNTY

## SPECIAL REPORTS

## SMITH COUNTY

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**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE  
FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Supervisors  
Smith County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Smith County, Mississippi, as of and for the year ended September 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 13, 2014. Our report includes an adverse opinion on the aggregate discretely presented component unit due to the omission of the discretely presented component unit which is required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component unit. The report is qualified on the General Fund because the County did not maintain adequate subsidiary records documenting the existence, completeness and valuation of Justice Court and Circuit Court fines receivable as required by accounting principles generally accepted in the United States of America. Except for the limitations related to the Justice Court and Circuit Court fines receivables, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Smith County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 12-1, 12-2, 12-3, 12-5, 12-6, 12-7, and 12-8 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 12-4 to be a significant deficiency.

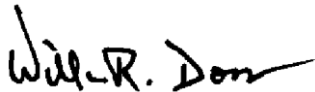
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smith County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12-2 and 12-8.

We also noted certain immaterial instances of noncompliance which we have reported to the management of Smith County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated June 13, 2014, included within this document.

Smith County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Smith County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Will R. Dooss". The signature is stylized with a large initial 'W' and a cursive 'Dooss'.

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 13, 2014





**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Supervisors  
Smith County, Mississippi

Compliance

We have audited the compliance of Smith County, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. Smith County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Smith County, Mississippi's management. Our responsibility is to express an opinion on Smith County, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Smith County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Smith County, Mississippi's compliance with those requirements.

In our opinion, Smith County, Mississippi, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

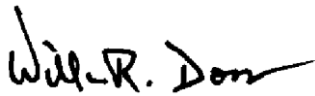
Internal Control Over Compliance

The management of Smith County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Smith County, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Will R. Dooss", with a stylized flourish at the end.

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 13, 2014



**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM,  
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES  
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors  
Smith County, Mississippi

We have examined Smith County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2012. The Board of Supervisors of Smith County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Smith County, Mississippi, has established centralized purchasing for all funds of the County and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

**Inventory Control Clerk.**

1. Inventory reports should be filed with the Board of Supervisors and Office of the State Auditor.

**Finding**

Section 31-7-107, Miss. Code Ann (1972), requires inventory reports to be filed with the Board of Supervisors, in triplicate with copies forwarded to the Office of the State Auditor no later than October 15<sup>th</sup> of each fiscal year. The required inventory reports were not prepared by the Inventory Control Clerk and filed with the Office of the State Auditor. Failure to prepare the annual reports increases the possibility of the loss or misappropriation of public funds and could result in the reporting of inaccurate amounts.

### Recommendation

The Inventory Control Clerk should prepare the inventory reports, as required by law.

### Inventory Control Clerk's Response


I was not appointed Inventory Clerk at the time this inventory statement was due. I prepared this report and it was approved by the Board of Supervisors and submitted to OSA on 6/3/2013.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Smith County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2012.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

Smith County's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

This report is intended for use in evaluating the central purchasing system and inventory control system of Smith County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Will-R. Dooss". The signature is written in a cursive, flowing style.

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 13, 2014

## SMITH COUNTY

Schedule 1Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2012

<u>Date</u>	<u>Item Purchased</u>	<u>Bid Accepted</u>	<u>Vendor</u>	<u>Lowest Bid</u>	<u>Reason for Accepting Other Than the Lowest Bid</u>
6/18/2012	2013 Freightliner trucks	\$ 79,957/each	Empire Truck Sales	\$ 77,728/each	Lowest bid from Tri-State Truck did not meet the required specs as advertised in the BOS minutes.

SMITH COUNTY

Schedule 2

Schedule of Emergency Purchases

For the Year Ended September 30, 2012

Our test results did not identify any emergency purchases.

SMITH COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2012

Our test results did not identify any purchases made noncompetitively from a sole source.

SMITH COUNTY

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

**LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT**

Members of the Board of Supervisors  
Smith County, Mississippi

In planning and performing our audit of the financial statements of Smith County, Mississippi (the County) for the year ended September 30, 2012, we considered Smith County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Smith County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated June 13, 2014, on the financial statements of Smith County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. State Treasurer's Report was not reconciled to the bank statements.

Finding

Section 27-105-5, Miss. Code Ann. (1972), gives the county the responsibility to the State Treasurer of the collateralization of public funds. However, the County is still required to perform certain duties for internal controls. During the testing of collateralization of public funds, it was noted that Smith County did not reconcile its bank statements to the reports from the State Treasurer's Office. Since the bank statements were not reconciled to the State Treasurer's report, the county is not in compliance with Section 27-105-5, Miss. Code Ann. (1972). Without reconciling the bank statements to the State Treasurer's reports, the risk increases that the county's total deposits may not be properly collateralized and are not in compliance with Section 27-105-5, Miss. Code Ann. (1972).

#### Recommendation

We recommend in the future that Smith County comply with Section 27-105-5, Miss. Code Ann. (1972) and reconcile its bank statements with the State Treasurer's reports.

#### Board of Supervisors' Response

It will be corrected for next year.

#### 2. Official's bonds should be secured every four years.

##### Finding

Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by the securing of a new bond every four years concurrent with the normal election cycle of the Governor. Several required employee bonds were written as "indefinite" coverage for the entire period of employment rather than the term. This would limit the amount available for recovery, if a loss occurred over multiple terms.

##### Recommendation

The Board of Supervisors should cancel the current bonds and secure new ones for the duration of the current term.

##### Board of Supervisors' Response

We cancelled current bonds and secured new bonds with ending date and will continue to do so with current and future employees.

#### 3. Issues regarding segregation of duties exist for the AS400 Administrator.

##### Finding

IT staff is limited and duties overlap, particularly in the instance of the employee who serves as the Purchasing Clerk, the Office Administrator and the AS400 Security Administrator. This person reports directly to the Board of Supervisors. With the existing reporting structure and security administrator rights on the AS400, this constitutes a segregation of duties issue that could increase the risk of fraud, due to the ability to add and delete user IDs, delete logs, etc.

##### Recommendation

In order to mitigate the segregation of duties issue created by the reporting structure of the AS400 Security Administrator, it is recommended that the Administrator be assigned two User IDs, one for duties in relation to purchasing and office management and another for AS400 security administration. Only the user ID used for AS400 Security Administration should have special authorities such as ALLOBJ and SECOFR. Logging should be turned on for this user ID and activity logs for this ID should be reviewed regularly by qualified personnel.

##### Board of Supervisors' Response

The County will take the recommendations under advisement and take steps to implement the recommendations.

#### 4. Smith County should strengthen passwords.

##### Finding

During our review, we noted that Smith County is using some parameters associated with password strength that meet industry standard best practices. However, the County has some password parameters that would not meet these standards, thereby creating unnecessary risk for Smith County Information Assets.

#### Recommendation

We recommend that Smith County improve its password strength by changing password parameters to comply with password management best practices and industry standards.

#### Board of Supervisors' Response

The County will take the recommendations under advisement and take steps to implement the recommendations within the parameters of the current operating system(s).

5. Smith County should expire all individual's passwords on a periodic basis.

#### Finding

A review of Smith County's security settings revealed that some user's passwords were set to expire on a more infrequent basis than recommended in best business practices. All passwords should be set to expire in accordance with policy to be determined by Smith County.

#### Recommendation

We recommend that a policy be implemented to insure passwords are expired on a regular basis. In addition, Smith County should conduct access reviews for information assets on a periodic basis (at least annually). Documentation of these reviews should be signed by the person conducting them and retained for review by auditors.

#### Board of Supervisors' Response

The County will take the recommendations under advisement and take steps to implement the recommendations within the parameters of the current operating system(s).

6. Smith County should create a rotation of backup's offsite.

#### Finding

Smith County is currently using an automated system to perform daily back-ups of the AS400. The back-ups are taken off-site until the morning of the next business day and then stored in a room adjacent to the AS400. Without off-site storage of back-up files and applications, material damage could be realized by the County and its processes should a catastrophic event occur involving the County's building and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

#### Recommendation

We recommend that Smith County implement a plan to insure that all back-up files are taken offsite on a regular basis and stored in a safe and secure location. This process should be documented in the Smith County Disaster Recovery Plan. With close proximity of a bank (across the street from the court house) it would be convenient and safe to place the backup tapes in the night deposit drop and then place them in a safe deposit box the next day. It is further recommended that tapes be kept at the bank for several days (e.g., one week), in case of a disaster situation that required recovery and problems in reading recovery tapes were experienced.

#### Board of Supervisors' Response

The County has taken steps to implement this recommendation.

7. Smith County should remove the generic User IDs on the AS400.

Finding

Smith County currently allows access to files on its computer systems by using generic user IDs that are available to individuals who are non-county employees that require access to land roles. Typically the user ID and the password are the same. Although access for these user IDs is limited, use of generic IDs considerably increases the threat of “hacking” the system through unauthorized access and does not allow proper monitoring of activity on the system as generic IDs do not facilitate positive identification of users and their activity on the system.

Recommendation

Smith County should assign a unique user ID and a complex password for each user needing to access Smith County data assets. Passwords for these accounts should be changed on a basis consistent with policy and best practices.

Board of Supervisors’ Response

The County will take the recommendations under advisement and take steps to implement the recommendations.

8. Filing cabinets containing sensitive information should not be accessible by the public.

Finding

Filing cabinets containing sensitive information are sitting in areas open to the public (e.g., hallways) and many are unlocked. These cabinets are to have their content imaged at some point and the documents would then be destroyed. Until the time the documents are imaged someone could remove, copy or alter documents in the unlocked filing cabinets.

Recommendation

Smith County should secure these cabinets until such time as the documents can be imaged and added to the current system for viewing.

Board of Supervisors’ Response

This issue has been resolved.

9. Systems security event monitoring should be improved.

Finding

Regulatory compliance requires that a covered organization develop a standards-based framework to provide for monitoring for system security events. This should include log monitoring facilitated by log filtering and intrusion detection.

Intrusion detection is widely defined as the process of discovering unauthorized use of computers and networks. Intrusion detection requires gathering information about the actions of users and programs. The resulting information can then be analyzed either by individuals or by programs (usually programs that run as part of intrusion detection systems (“IDS’s”) that are specially crafted to analyze such information. The need for intrusion detection links directly to the various regulatory compliance requirements to detect and avert reasonably foreseeable errors and threats due to malicious or criminal actions, systems failure, natural disasters and error by employees or users.

Currently Smith County does not have any network intrusion detection systems or methods to efficiently and / or easily monitor server logs for key security related events. Therefore, monitoring of key logs and for key security events is not being performed.

#### Recommendation

We recommend that Smith County review the current systems and develop a plan for monitoring systems and networks for key security events consistent with regulatory compliance objectives..

#### Board of Supervisors' Response

The County will take the recommendations under advisement and will attempt to take steps to implement the recommendations as budgetary constraints allow.

10. Smith County should replace obsolete computer hardware and software.

#### Finding

Smith County is running operating systems as well as applications on some of its personal computers (PCs) that might not be supported by vendors. Due to the lack of such support, these systems could become vulnerable to hackers and malware such as viruses.

#### Recommendation

We recommend that Smith County develop a plan to replace the operating systems, applications, and hardware where necessary that is associated with lack of support from vendors as soon as possible. Computers that originally came loaded with operating systems or applications that are no longer supported by vendors will have hardware that most likely cannot run the newest operating systems or applications, thereby requiring replacement of hardware, operating systems and applications in many cases. Due to the possible large number of PCs that need replacing this could involve a sizable expenditure by the County. Due to the cost and effort involved in such a project, this project should be begun as soon as possible.

#### Board of Supervisors' Response

The County will take the recommendations under advisement and will attempt to take steps to implement the recommendations as budgetary constraints allow.

Circuit Clerk.

11. Internal controls should be strengthened in the Circuit Clerk's Office.

#### Finding

An effective system of internal control over cash should include daily bank deposits and settlement of funds to the proper authorities each month. As reported in the prior five years' audit reports, we noted that bank deposits are not being made on a daily basis, which is a deficiency in internal control. Additionally, criminal and civil settlements for July and August 2012 were not made until October 2012 and it was noted that the clerk is preparing deposits, taking deposits to the bank, preparing cash journals, preparing settlements, disbursing checks, and reconciling accounts each month. The failure to implement proper controls and have proper segregation of duties could result in the loss or misappropriation of public funds.

#### Recommendation

The Circuit Clerk should ensure that bank deposits are made daily and settlements from the civil and criminal account are made each month. Additionally, duties should be segregated between personnel in the Circuit Clerk's Office.

#### Circuit Clerk's Response

Money is not received each day in the office, however efforts will be made to make more frequent deposits. Deputy clerks will be utilized in preparing monthly settlements and deposits and deputy clerks are primarily responsible for receipting in all monies. Therefore, this constitutes a checks and balance system. As long as the clerk is held ultimately responsible for all money, I will be in charge of all office money/funds.

Chancery Clerk.

12. Chancery Clerk should make deposits in a timely manner.

Finding

An effective system of internal control should include making daily deposits. As reported in the prior year's audit report, we noted that deposits were only being made 3-5 times per month, instead of daily. Failure to make daily deposits could result in the loss of public funds.

Recommendation

The Chancery Clerk should ensure that daily deposits are being made.

Chancery Clerk's Response

I will make deposits on a daily basis.

Payroll Clerk.

13. Required forms should be completed for re-employment after retirement.

Finding

Section 25-11-127, Miss. Code Ann. (1972), requires counties hiring PERS service retirees to file PERS Form 4B "Certification/Acknowledgement of Re-employment of Retiree" with the PERS office within five days from the employment of the retiree and re-filed each fiscal year. The County failed to file this form during fiscal year 2012 for three of its employed PERS retirees. By not filing this form the County to be in non-compliance with state legal requirements.

Recommendation


The County should file the required form with PERS as soon as possible.

Payroll Clerk's Response

I was not employed as payroll clerk until 10/23/2012. I corrected this problem.

Smith County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 13, 2014

SMITH COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SMITH COUNTY

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SMITH COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2012

Section 1: Summary of Auditor's Results

***Financial Statements:***

- |    |                                                              |             |
|----|--------------------------------------------------------------|-------------|
| 1. | Type of auditor's report issued on the financial statements: |             |
|    | Governmental activities                                      | Unqualified |
|    | Business-type activities                                     | Unqualified |
|    | Aggregate discretely presented component unit                | Adverse     |
|    | General Fund                                                 | Qualified   |
|    | Countywide Road and Bridge Fund                              | Unqualified |
|    | County Engineer Fund                                         | Unqualified |
|    | Jail Construction Fund                                       | Unqualified |
|    | Solid Waste Fund                                             | Unqualified |
|    | Aggregate remaining fund information                         | Unqualified |
| 2. | Internal control over financial reporting:                   |             |
|    | a. Material weaknesses identified?                           | Yes         |
|    | b. Significant deficiency identified?                        | Yes         |
| 3. | Noncompliance material to the financial statements noted?    | Yes         |

***Federal Awards:***

- |    |                                                                                                                           |               |
|----|---------------------------------------------------------------------------------------------------------------------------|---------------|
| 4. | Internal control over major programs:                                                                                     |               |
|    | a. Material weakness identified?                                                                                          | No            |
|    | b. Significant deficiency identified?                                                                                     | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs:                                                 | Unqualified   |
| 6. | Any audit finding disclosed that are required to be reported in accordance with Section ____510(a) of OMB Circular A-133? | No            |
| 7. | Federal programs identified as major programs:                                                                            |               |
|    | a. Schools and roads-grants to states, CFDA #10.665                                                                       |               |
|    | b. ARRA - Energy efficiency and conservation block grant program, CFDA #81.128                                            |               |
| 8. | The dollar threshold used to distinguish between type A and type B programs:                                              | \$300,000     |
| 9. | Auditee qualified as a low-risk auditee?                                                                                  | No            |

## SMITH COUNTY

### Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

#### Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

12-1. Component Unit should be included in financial statements.

Finding

Generally accepted accounting principles require the financial data for the county's component unit to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data of the county's legally separate component unit. As reported in the prior five years' audit reports, the financial statements do not include the financial data for the county's legally separate component unit. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component unit for not including it in the county's financial statements.

Recommendation

The Board of Supervisors should provide the financial data for its discretely component unit for the inclusion in the county's financial statements.

Board of Supervisors' Response

It was determined by the Board that the cost outweighs the benefits.

Material Weakness

Material Noncompliance

12-2. Warrants should not be signed without sufficient money in the fund.

Finding

Section 19-13-43, Miss. Code Ann. (1972), prohibits the signing of warrants or the delivery of warrants until there is sufficient money in the fund upon which it is drawn to pay the same. Warrants were issued on funds which did not have sufficient money available. At September 30, 2012, the Chancery Clearing Fund had a negative cash balance of \$3,921. Failure to maintain sufficient cash balances in county funds prior to writings checks on these funds results in other funds' cash being used for purposes other than their intended purpose.

Recommendation

The County should ensure that no warrants are signed or delivered until there is sufficient money in the fund upon which it is drawn to pay the same, as required by law.

Board of Supervisors' Response

The issue has been resolved.

## SMITH COUNTY

### Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

#### Material Weakness.

##### 12-3. Smith County should establish and test a Disaster Recovery process.

###### Finding

During our review of the Information Systems (IS) controls of Smith County ("the County"), we noted the County has not established a disaster recovery process. As a result, Smith County cannot fully ensure that the County's information systems can be restored in a timely manner. Disaster recovery involves defining and documenting plans to help sustain and recover critical information technology resources, information systems, and associated business functions. Control Objectives for Information and Related Technology (CobiT, Section DS4), as well as recognized industry best practices, require a written disaster recovery plan be developed and tested regularly to provide orderly recovery of vital functions in the event of a hardware or environmental disaster. Failure to maintain an adequate recovery plan could impede the agency's ability to regain computer operations in the event of a disaster.

There are a number of steps that an organization can take to prevent or minimize the damage to automated operations that may occur from unexpected events. One example is routinely backing up data files and programs and periodically restoring these files and programs as part of a formal, documented disaster recovery exercise. Such actions maintain the organization's ability to restore data files, which may be impossible to re-create.

Smith County is currently using an automated system to perform daily back-ups of the AS400, but is not restoring such files as part of a formal, documented disaster recovery exercise. Without proper assurance that back-up files can be utilized to adequately restore all critical data in a timely manner in the event of disaster scenario, material damage could be realized by the County and its processes should a catastrophic event occur involving the County's building and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

###### Recommendation

We recommend that Smith County develop, implement, and test a plan to insure that critical data and applications are recoverable in case of a disaster scenario. We further recommend that Smith County develop and implement a disaster recovery plan documenting procedures to be followed during an emergency. Once the plan is completed, it should be subjected to proper testing, and employees should be made aware of their responsibilities in the event of a disaster. The plan should be updated when needed in order to maintain readiness for a disaster scenario.

###### Board of Supervisors' Response

The County will develop and implement a plan to insure that the critical data and applications would be recoverable in the event of a disaster. The County will seek the aid of the Delta provider along with Premise which provides the County's IT and/or IS services with the budgetary constraints of the County's funds.

#### Significant Deficiency.

##### 12-4. Smith County should implement a formal information security policy.

###### Finding

Smith County has not adopted a formal Information Security Policy or Enterprise Security Plan. The lack of a formal Information Security Policy can lead to a breakdown of basic security practices in the areas of application security, LAN/WAN security, management of the security application and Internet protocol.

## SMITH COUNTY

### Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

#### Recommendation

Practices outlined in the *Mississippi State Enterprise Security Policy* are typical of appropriate standards for any moderate-sized IT organization. While full compliance with all facets of the policy may be an economic challenge for Smith County, beginning steps to become compliant with a policy similar to the *Mississippi Enterprise Security Policy* (ESP) are necessary. We recommend that Smith County create a plan of compliance with industry standards to ensure progress towards a robust documented information security plan. This policy should be reviewed and approved by county supervisors. In addition, employees that utilize technology should review and accept such policies before access to computer resources is granted to employees. Proof of approval by management and acceptance by employees should be retained for review by auditors.

#### Board of Supervisors' Response

The County will begin steps to implement practices such as those outlined in the Mississippi State Enterprise Security Policy and will attempt to create a plan which complies with industry standards as budgetary and/or economic constraints allow.

Justice Court Clerk.

#### Material Weakness

- 12-5. Multiple weaknesses were noted in the internal control structure in Justice Court Clerk's office.

#### Finding

An effective system of internal control over the collection, recording, and disbursement of cash should include maintaining cash journals and the supporting documentation. As reported in the prior four years' audit reports, the following deficiencies were noted in the accounting of cash:

- a. Proper criminal, civil, and clearing cash journals were not being kept on a monthly basis.
- b. Reconciliations of cash journals were not being made each month to corresponding bank accounts.
- c. Daily deposits were not being made.

Without adequate records, inaccurate information may be reported and increases the possibility of the loss or misappropriation of public funds.

#### Recommendation

The Justice Court Clerk should properly maintain cash journals and the supporting documentation. The cash journals should be reconciled to the bank statements on a monthly basis and deposits should be made daily.

#### Justice Court Clerk's Response

I was not employed at Smith County Justice Court at this time. The problem will be fixed for fiscal year 2013. Steps have been taken to comply with the auditor's request.

## SMITH COUNTY

### Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

#### Material Weakness

##### 12-6. Fines receivable listing should be properly maintained.

###### Finding

An effective system of internal control over fines receivable records should include maintaining adequate records to substantiate the total fines receivable balance and ensure that a listing is printed from the Delta System each year on September 30<sup>th</sup>. Based upon audit procedures performed, management did not prepare a fines receivable listing until February 28, 2013. Therefore, the Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of the Justice Court fines receivable. Failure to establish control procedures over aging of the Justice Courts fines receivable could result in erroneous amounts being reported in the financial statements.

###### Recommendation

The Justice Court Clerk should establish procedures to ensure that a fines receivable listing is run each year on September 30<sup>th</sup>.

###### Justice Court Clerk's Response

I was not employed at Smith County Justice Court at this time. The problem will be fixed for fiscal year 2013.

#### Circuit Clerk.

#### Material Weakness

##### 12-7. Controls over fines receivable aging reports in the Circuit Clerk's office should be strengthened.

###### Finding

An effective system of internal control over Circuit Clerk fines receivable should include maintaining adequate subsidiary records to substantiate the total fines receivable balance. Management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable for Circuit Clerk fines at year end. Therefore, the Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of the Circuit Clerk's fines receivable. Failure to establish control procedures over aging of Circuit Clerk fines receivable could result in erroneous amounts being reported in the financial statements.

###### Recommendation

The Circuit Clerk should establish procedures documenting the existence and valuation of Circuit Court fines receivable for inclusion in the financial statements.

###### Circuit Clerk's Response

Procedures have been put in place. Delta Accounting Software will be utilized to aid in accounts receivable of fines and older uncollectible fines will be taken before the Board of Supervisor to be spread upon the Board minutes as uncollectible removed from criminal accounts receivable ledger.

## SMITH COUNTY

### Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

Board of Supervisors.

Material Weakness

Material Non-compliance

12-8. Controls over compliance with bond covenants should be strengthened.

Finding

The County entered into a general obligation bond agreement on March 1, 2005 for the acquisition and construction of a chancery building and a jail facility, in the amount of \$5,500,000. In the bond covenant there is a requirement for a due diligence test and for an expenditure test. The due diligence test states, "The County reasonably expects that the acquisition and construction of the Construction Project will proceed with due diligence to completion by April 6, 2008." The expenditure test states, "It is expected that all of the net sale proceeds of the Bonds will be fully expended on the Project by April 6, 2008."

It was noted during our audit procedures, that \$2,194,955 remained in the jail construction fund and had not been expended for the completion of the jail facility as of September 30, 2012. Therefore, the County did not materially comply with the requirements of the bond covenant.

Recommendation

The County should seek legal guidance from the County's attorney and bond counsel as to the appropriate action the County should take at this time related to the remaining bond proceeds on hand. Internal controls should also be put in place to ensure that compliance with future bond covenants will be made.

Board of Supervisors' Response

The Board of Supervisors will receive bids for the construction of a jail complex on March 13, 2014. The Board expects to accept a bid shortly thereafter and for the construction to begin immediately. All information provided to the Board at this time indicates that the construction will be completed within one (1) year of the acceptance of the bid. It is expected that all GO Bond Funds will be expended on this project within said year. Furthermore, the arbitrage on said bonds is up to date, and the Board will obtain updated arbitrage reports as needed.

### Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.